

# The founding of the vanity fair brand

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Founded in 1899, Vanity Fair (VF), the world's largest publicly owned apparel company, offers various products such as jeans, bags, sportswear, footwear and outerwear. It operates mainly in the US and Europe, but also in developing countries like India, Russia and China. In the last decade, VF made some acquisitions including The North Face, Napapijri, Nautica and Vans. Five major coalitions consist of multiple brands – a total of 700 brand stores in 2009 – leading the “ Growth Plan” strategy. The company recorded, in 2008, \$7, 561, 621 of revenues.

VF brands are attempting to establish close relationships with its suppliers to reduce production costs, respond to changes in other cost factors, and shorten the lead time that occurs with the traditional suppliers. Also, Fraser, the President of the Supply Chain International for VF brands, is concerned that the company's current supply chain strategies will not satisfy the future demand that will occur in the Asia-Pacific areas. In this paper, we will analyze four alternatives that VF brands can execute for its global expansion into the Asian markets. Those 4 alternatives are as follow; (1) To abandon the Third Way; (2) To continue with the current supply chain strategies; (3) To pick the best method for each coalition and products categories; and (4) Gradually switching to Third Way altogether in the end. Based on our analyses of the 4 alternatives and the apparel industry, we will suggest the best solution that will satisfy the new demand and help the other areas to become more efficient and effective in the future.

## SWOT ANALYSIS

## **Strengths**

Since the company was established more than a century ago, it was able to develop certain competencies in various areas and a good reputation. One of them is the strong performance in its internal plants, and the know-how and expertise involved. All these led to VF's own sustainable competitive advantages. In addition, the company built a technical know-how and engineering capabilities, which are very difficult to imitate. The rapid production at the internal plants and its supply chain are very valuable. Moreover, a large number of suppliers and the experience gained accumulated over time give VF a considerable and reliable network. Also, during the various acquisitions, VF preserved the unique organizational cultures and brand identities to keep the design groups intact. Every brand has then a strong personality that can be managed and developed individually, giving more diversity. Besides, the financial situation of VF is strong with a low level of debts and a high cash position that can help them in case of tough economic situations and give them more flexibility to respond accordingly.

## **Weaknesses**

When operating such a big and diversified company, some difficulties may occur. The first one is the lack of coordination and trust among suppliers and the company. A bullwhip effect may be observed due to the lack of inventories. Also, the supply chain is often illogical and highly fragmented due to various outsourcing locations. Certain dependence may be caused by some suppliers, making it very costly (ex: Nicaragua). Thus, building a reliable supplier network is very expensive. VF has a sheer complexity of its

product line, leading to different needs and priorities among its numerous brands. The diversity of ideas between coalitions and directors causes some problems in the decision-making as well. Low costs pressuring for outsourcing can lead to quality matters and lack of control. Additionally, not much differentiation can be made in terms of supplying and transportation.

## **Opportunities**

As the apparel industry is changing at a very rapid rate, innovative companies can see various opportunities. The supply chain management is a very first change in the company's structural changes; then the "Third Way" is described as an opportunity to gain another competitive advantage, going forward. Partnerships can be developed in a long term vision. Moreover, the expansion of sales in developing countries represents a huge growth opportunity. Asian markets seem like a favourable location for new stores. Also, the development of new line products at a broad range of price can be designed at any time to satisfy a new market segment. Fashion is seen differently around the world, thus, various strategies are used to fulfill each need. Future acquisitions can also contribute to the growth of VF.

## **Threats**

Apparel industry is very much affected by economic situations. In times of crisis, too much dependence on some suppliers might be fatal; especially that competition is very hard and intense with brands competing directly. Continuous investment must be made, essentially in marketing to maintain margins. Plus, the growing bargaining power of mass retailing chains put pressure to lower the price at all time. Also, the frequent changes in tariffs

and quotas make outsourcing unsure sometimes, making the research for suppliers challenging.

Agile supply chain and vf brands

The “ third way” seems to be a new way to deal with suppliers and with a supply chain in general. However, “ third way” could be seen as an agile supply chain in many aspects. In the next section, we will discuss what are an agile supply chain, the differences between lean supply chain and hybrid supply chain, and the link with VF Brands’ “ third Way”. This part will give basic information that will be useful for our recommendations.

## **VF BRANDS and THE AGILE SUPPLY CHAIN**

In a turbulent and volatile world, “ the only thing that does not change is change by itself” . Basically, companies compete at several competitive dimensions like cost, delivery time, quality and flexibility. However, today’s intensely competitive market is more and more defined by an instability and unpredictability of demand that represent the new challenges organizations face. For many reasons, the product and technology life cycles are shortening, forcing more frequent product changes in addition to new competitive pressure. Now, companies look beyond cost and quality advantages. Speed to market, speed to delivery and flexibility are being emphasized as a way to be more reactive to the needs of customers. However, more than speed, companies require a high level of maneuverability, or in other words, a high level of agility.

## **What is an Agile Organization?**

Agility is a business-wide capability that embraces an organizational structure, information and systems, logistics processes, and in particular, mindsets. The key to success of an agile business is speed and flexibility. Agile organizations are market-driven, with more product research, and short development and introduction cycles. An agile organization can be defined as an organization capable to “cope with unexpected challenges, to survive unprecedented threats of business environment and to take advantage of changes as opportunities”. This kind of organization must be a fast moving, adaptable, robust business able to achieve a competitive advantage in a very instable environment.

The basic way to define agility is the ability to quickly match supply, however, it is important to explain that agile is not a synonymous of leanness. Indeed, lean can be seen as doing more with less by implementing a lean manufacturing (Porsche Consulting) with “zero inventory” or “Minimum Reasonable Inventory (MRI)” and “just in time” approach. However, lean manufacturing system does not often mean flexible manufacturing system. A lean manufacturing system can result on less waste and high efficiency, but sometimes with important inventory. Finally, a company with a lean chain of supply can make their consumers wait a longer time to receive their products. We can illustrate that with the automotive industry and more specifically with the Toyota Production System. Indeed Toyota production system can be seen as lean, but that does not mean that consumers do not have to wait, often during months, to have the car of their choice. Therefore, “Lean” approach works best in high volume, low variety,

and predictable environment. Whereas, “Agility” is needed in less predictable environment where demand is volatile and the requirement for variety is high.

## **The Agile Supply Chains and Characteristics**

All organizations have supply chains of varying degrees, depending upon the size of the organization, the depth and scope of international outsourcing, the type of product manufactured, and the international production network. A supply chain describes the series of linked activities creating a process that changes supplies and components into finished products that will be distributed to customers. The agility of a Supply Chain is a measure of how well the relationship involved in the process enhances four pivotal objectives of agile manufacturing: Customer sensitivity, Virtual integration, Process Integration, and Network integration.

First, all the agile supply must have the capacity to understand and respond to real demand quickly, in other words, the supply chain must be customer sensitive. The organization must be able to make forecast based upon past sales or shipment demand and convert these forecasts into inventory. For instance, the main challenge for companies is to be able to hear the voices of the market by receiving Efficient Response from customer (ECR) using information and technology to capture data on demand directly from point-of-sale and point of use. The organization must use information and technology to share data between buyers and suppliers creating a supply chain based on information rather than inventory, basically, create a Virtual Supply Chain. Sharing information using information and system (for

example EDI) with our partner will create a collaborative work environment (process integration) that can be illustrated by joint product development and process improvement between buyer and suppliers. Integrated your process offer the potential for major performance gain. This form of co-operation in supply chain is more and more important as many companies focus on their core competencies and outsource all other activities.

Partnerships between buyer and supplier are inevitable to achieve an agile supply chain. To this extent, integration can mean the combination of sell through data, exchange of inventory status information, order coordination, open-book accounting, buyer supplier team, share information about the future products, and change in manufacturing process need to be changed as well as simplified pricing schemes .

Figure 1

### **Dimension of Supply Chain Agility**

Supply chain agility can be discussed in terms of two dimensions of reach and range of activities covered by networking amongst companies (13; 8). The figure shows this two-dimensional framework. On the vertical axis, there is the reach from Personal Division to Global. When, in the horizontal axis, there is the Range of activities from the basic way to send a message (EMAIL for instance) to Internet integration. This figure shows three steps from Bill of Material through Purchasing efficiency with electronic commerce, Supplier coaching, and Relational Database to the top level of planning, and control with Demand Planning, and Capacity Planning, and so on. To achieve agility on the Supply Chain, an organization must go through these steps and



access the highest level with planning and control. In fact, the company must achieve the highest level on Reach (Global) and on Range (Integration). Indeed, on the last step, internal operations will be transparent to suppliers and customers. This transparency allows cross company's team to work. Local teams are able to think globally and discuss the process and requirement without restriction without major problems of communication. Any change, modification, and new project can be implemented quickly, efficiently, and easily without creating high cost, or affecting quality of the output. (Figure 2)

Another study, by Vankatranan and Handerson, implemented these three steps in addition with three inter-dependent dimensions of the supply chain (customer interaction, asset configuration, Knowledge Leverage). In fact, these three stages can be implemented to evaluate progress on each dimension of the supply chain and see how well integrated and agile it is. (Figure 3)

## **Hybrid Strategy, another Solution**

Lean and agile supply chain are two concepts focusing on two different issues. Lean initiative is said to focus on cost and quality and impacts on flexibility and times based technology leadership objective (e. g. TPS), whereas, agile supply chain influence costs and time based technology leadership. However, companies often need to keep in mind cost quality as well as flexibility and technology leadership at the same time. A combination of the two approaches could be appropriate to create a hybrid strategy. Hybrid Supply Chain focuses on the fact that characteristics of demand must

be taken into consideration when designing the supply chain. Within a mixed portfolio of product and markets, there could be some products with stable demand and some other with unpredictable demand that is why a supply does not have to be totally agile or lean. For instance, the Supply Chain of the fashion apparel, Zara, could be shown as an agile supply chain with some lean characteristics in order to have the most effective quick-response system in its industry. Indeed Zara is able to quickly understand trends, producing some items with low flexible demand in low cost country (low cost, long time delivery, and so on), but at the same time they are able to be produced quickly in response in Spanish high-automated and very efficient factories that allow quick production, shorter time to delivery in point of sale, lower risk, and more flexibility. We can discuss another case, IKEA. IKEA deals with many suppliers mostly in European Union (more than 50%) and 20% in China. Two ideas must be underlined; Ikea usually implements long-term relationships with strong partnerships with its suppliers, however, these partners must respect very strict norms created by IKEA itself. IKEA can help its suppliers (by financing machines, increasing the efficiency of the supply chain, and on) that make these suppliers very efficient and very dependent to the buyer. To this point of view, IKEA supply chain can be seen as an agile Supply Chain, however, Ikea produces many products in Asia (China), but these products have a more stable demand trend.

### **VF BRAND and The Third Way: Implementation of an Agile Supply Chain?**

Vanity Fair brands were used to deal with their own very efficient factories located close to the company's main market, the US. However, the group

decided to extend globally by buying other brands where the policies were sometimes to totally outsource the production. VF brands needed to deal with a very complicated supply chain, very decentralized design, and so on; a kind of mix between traditional sourcing and outsourcing, for some aspect similar to ZARA. However, just chasing low cost and building its own factories are not seen as a long-term solution for Chris Fraser, President Supply Chain international for VF Brand. At the same time, some of the inefficiency was due to lack of coordination and lack of trust between apparel companies and suppliers. A new solution was adopted, the “third way.” “Third way” means that VF should focus on supplier network. Suppliers and VF brand would work together. Suppliers would own their factories, but VF brand will help them for free using their own resources in engineering and management forces as well as with their purchasing power to procure fabric and other raw materials -resources previously used in their own factories. This solution looks like IKEA’s solution, however, Ikea focused on a network of suppliers geographically near its location which is not the case for VF Brand that have to deal with low cost countries regulation and particularities and many brands in order to achieve its agile supply chain. The results are not very good for the moment: difficulties to convince shareholders that sharing resources with outsourced suppliers is a good solution, and as well as difficulty linking with the country where products are supplied; which probably is the reasons why.

As a conclusion, results from studies like shows that only a few companies have adopted agile supply chain practices. However, most companies have created long term collaboration with suppliers as well as customers; it can be

seen as lean Supply chain or hybrid strategy. Indeed study suggests that lean supply chain has a higher level of impact on competitive objectives in contrast to agile supply chain. Nevertheless, this result would probably be discussed within a few years as it will take some time before current companies' investments and research effort on agile supply chain lead to more concrete and enjoyable results on competitive outcome compared to lean supply chain. Let's see what VF Brand can achieve if it pursue this "third" way.

## ALTERNATIVES

### **Alternative 1 Abandon the Third Way – go back to the old way**

The Third Way could potentially cause many difficulties for VF, hence abandoning this way before investing too much money is a possible alternative.

Firstly, you maintain the flexibility to change volumes or to change to a supplier who is offering a lower price. You are also independent from the supplier's problems, for instance if you are not satisfied with the quality of the product, you can simply switch to a different supplier. Following the old way, you do not need to spend money and time until the problem is fixed.

Secondly, it is tough to find suppliers willing to form a partnership with the given conditions. To agree to not supply the same category of products to competitors anytime in the future is a huge barrier for a supplier and drags him into dependence on VF. Since the price paid is vague at the establishment of the relationship, the supplier faces the risk to be exploited.

The fact that one of the test Third Way suppliers could not manage to survive financially is a hint that the relationship might not work out for suppliers. In Addition, VF's existing suppliers were carefully selected and since they were not interested in a closer relationship. Thus, VF needs to establish the Third Way with unknown companies, a great risk if you are concerning the trust needed.

Thirdly, there is still the possibility that VF's knowledge leaks out to competitors. The technology you provide your supplier is not necessarily limited to a specific category of product, but your relationship might be. In this case, the technology could be used by competitors if they buy products of a different kind from that supplier. Since VF is not the owner of the supplier, it is also harder to control the knowledge leaking. For example, an employee may change to a competitor's supplier. Fraser and Green called VF's technical capabilities a "trump card", therefore it should be highly protected and not being risked.

Another point is that the problem of switching costs is also an issue. To establish a Third-Way-relationship VF has to invest money to transfer their knowledge to the supplier. Since the latter is not losing any money in case of termination of the contract, the chance for dropping out is higher.

Regardless whether the supplier drops out or is closing down for some reasons, it takes a long time until a new relationship is established, so VF might face severe supply difficulties.

Lastly, in a study there was no significant relation between strategic sourcing and gaining competitive advantage. Therefore, the effort spent on the Third

Way might not return the expected results. On the other hand, the same study showed that strategic sourcing (and therefore the Third Way) has a positive influence on business performance. A close relationship is also speeding up goods' entry. Also keep in mind that the total costs for a five pocket jeans were the lowest of all three ways.

### **Alternative 2 – Continue the current supply chain strategies**

Another alternative strategy for the situation which Vanity Fair brands are facing could be to keep working on the current strategy. As explained in the article and supported by its strong financial performance compared to its competitors, the company has maintain its competitive position in the apparel industry. VF brands have been well established through a series of successful mergers and acquisitions of different brands, products, and styles. In the course of these acquisitions, the company was able to gain huge competitive advantages from operating its own manufacturing plants and traditional outsourcing, simultaneously. This combined strategy allowed the company to juggle between based on the geographic markets, demands, different products and coalitions. Fraser's Third Way strategy seems very attractive for VF going forward. Many of the challenges the company faces are due to production inefficiency and supplier relationship based on little or no trust. Fraser and VF brands are at a crucial stage to decide which means to carry on international expansion goals in the future. Despite many benefits of the Third Way, the company must examine if this supply chain strategy is a strong fit for Asian markets.

As mentioned previously, there is no doubt that a combination of “ full integration and traditional sourcing” is a VF brands’ strength. Internal manufacturing sites are able to produce high quality products more efficiently and reliably compared to not only its competitors but also its outsourcing suppliers. The significantly reduced production time is a great strength with respect to the products that experiences a high inventory turnover rate. Another advantage arises in unexpected crisis such as the global economic downturn in 2008-2009. If the company operated solely based on outsourcing, it would have been very difficult to survive due to the shutdown of small shops and short notice of their discontinuation.

On the other hand, outsourcing for certain coalitions or products due to the nature of its operations is inevitable. “ Cut and make” (CM) contracts allowed the company to oversee cost drivers at each stage, mostly for heritage lines supplied in Central American and Caribbean. Full package sourcing was mainly used for the lifestyle brands in Asia, Europe, and Northern Africa. Outsourcing strategy provides VF brands with more flexibility when dealing with different suppliers across different geographic regions, especially with regards to tariffs and quotas.

While the Third Way has many benefits going forward, this strategy also involves a high risk and costs associated, more so if executed without thorough research and examinations. Besides the concerns from different areas of the company itself, the Third Way should be carefully selected and applied to the most suitable product lines. For example, the strategy is most suitable for products that require the steady and regular supply of its

inventory with the staffs of a certain level of education. Also these potential suppliers should be willing to build the strategic partnership for a long term. As mentioned before, switching costs are another hindrance. Since it is much easier to persuade new suppliers than existing suppliers, the company needs to thoroughly examine the qualifications of potential suppliers and there is always a risk that the supplier might not meet the standards later on. Rather than expanding globally extensively through the Third Way, Fraser and the company must first identify the strategic fit for certain geographic regions for certain products/coalitions, and then pursue this strategy. A product line which makes up a small volume or not much techniques or skills should rather be outsourced.

### **Alternative 3: Hybrid Supply Chain**

VF Corporation world headquarters is located in Greensboro, North Carolina where the senior management team is based, along with the corporate strategy, Finance, Global Business Technology, Law, Human resources and finally, Global Supply Chain. VF Brand Business model focuses on supporting the individuality of lifestyle of each VF Brand and has to deal with each headquarter. Indeed, each Brand has its own headquarter and focuses on its own consumers and customers.(1) However, VF Brands had divided the globe into 4 areas: US Region, Americas, EMEA (Europe, Middle East, Africa), Asia-Pacific. VF Corporation has a specific strategy for each region even some brands are in different regions and are often global. Each brand has specific suppliers that can deliver globally and deal with the headquarter of this specific brand (not with VF Corporation). However, different brands in different regions might need the same supplier for almost the same product.



For instance, two brands may need the cheapest supplier as possible for a specific type of product that can accept a long lead time whereas some other products may need a short lead time as the demand trend could fluctuate a lot.

The next recommendation could be for VF Brand to have a more original and customized production and purchasing strategy. The basic idea is to create more coherence between where suppliers are based and where products are distributed. Let's take backpacks for example. Backpacks are needed for many companies inside the group, however the demand for backpacks is not fluctuating a lot and the demand is often lower for a backpacks than for jeans or a shirts or t-shirt. This implies that these backpacks could be produced in Asia with lower prices and longer lead time with classic suppliers. However, Jeans for the US market could be manufactured in Mexico in highly automated factories owned by VF Brand, and shipped quickly to the US. Manufacturing these Jeans in Mexico allowed shorter lead times and flexibility depending on fashion trend and thus, demand. The idea is to base suppliers where it is more significant for distribution. If goods are produced in Eastern Europe or Asia, these products should be shipped directly from suppliers to a distribution center that will be located near where products will be sold. Indeed, nowadays, many products are produced in Asia and shipped to the US to finally be sold in Asia. This new approach will significantly reduce lead times and cost.

Previously, we only talked about regular suppliers and factory owned by VF. However, VF Brands do not own their own factories for instance in the

European and Asian markets. The key idea is to implement the third way in this case. Indeed, some products in the Asian or European market could have a very fluctuating demand trend; for these specific products some brand may need suppliers as efficient as VF Brands factories. Choosing specific suppliers and implementing the third way with them could be a good solution. These third way suppliers could produce for different brands of the VF Corp when they want to produce common products for a specific period of time or deal with specific products for different brands of the group. These third way suppliers could act like VF Brands factories; but in this case, close to EMEA (Europe, Middle East and Africa) region or Asia-Pacific region markets. To avoid sending products to other part of the world and then send them back to the original region, regional centers could be created. These centers will received product from normal suppliers (common for all VF Corp Brands) and then send these product to other regional centers, reducing lead time and cost. At the same time, Third Way suppliers will only focus on production for their actual area of the world.

VF Brands must act local and think global. However as I will show, VF Brands do not have to think global just with its supply chain. Indeed, as we previously said, some products -like backpacks- are not often a trendy product. These “ not-so-specific” products could have a common base - platform- share between the brands that will allow mass production with the same suppliers-reducing cost by dealing with more significant volumes-. In other words, some products could probably be designed by and for a different brand of the group but with the possibility of customization to differentiate these products.

Exhibit 1 shows you an example for 3 areas, (EMEA, USA, ASIA)

1- VF Corporation Website <http://www.vfc.com/about/global-presence>

VF CORP, how to think Globally

### **Alternative 4: Gradually switch to Third Way altogether in the end**

Another alternative is that VF could gradually change their strategy to Third Way altogether in the end. As mentioned in the given case, VF can achieve more efficiency and long term stability through the Third Way. In our previous alternatives, we mentioned our concerns about the Third Way that it would not succeed. According to this point of view, the Third Way will bring loss of flexibility, leakage of VF's technology to outside and many other losses that will not benefit the company. However, to survive in apparel market of today, it is crucial for a company to satisfy various needs of consumers while supplying products as quickly as possible, which can be achieved by the Third Way. In order to quickly respond to market changes, it is important for VF to have a simplified, efficient production process so that it can immediately act when necessary. By achieving the Third Way, VF can gain two advantages. First, it can bring efficiency to its supply process. Second, it will result in a long term and sustainable supplier relationship.

First, by implementing the Third Way, VF can make its supply process more efficient. By providing high technology engineering resources of VF, suppliers of VF can improve its production processes. This will result in cost benefits for VF as it will shorten lead time, and decrease production and inventory cost. Not only that, improving production process and shortening lead time

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mean VF can act more quickly. It is important for an apparel company to react quickly to changes to satisfy ever changing needs of the fashion market.

Second, VF can create a long term and sustainable supplier relationship with its suppliers by following Third Way. As previously mentioned, contract of Third Way includes long term contract with its supplier in producing goods. By having a long term relationship, VF can decrease cost of finding new supplier for every new season. Also, by providing VF's engineering resources to improve the production process for suppliers, VF can gain trust from its suppliers. By building trust with suppliers, VF can minimize the cost of excess inventory and long lead time.

Those against the Third Way argue that it will result in low flexibility, technology leakage. However, recent experiments in countries like Bangladesh showed the Third Way suppliers were able to greatly shorten lead time, allowing VF to respond to market more quickly than compared to traditional ways. Also, no leakages of VF's technology were reported. Those against the Third Way argue that the Third Way has many holes and also it is unable to persuade existing suppliers to change into the Third Way and therefore risky and ineffective strategy. However, this is a myopic view of the issue. Such problems are transitional errors that can be dealt with in the long term. Holes that might appear through the Third Way can be revised when such problems are found. Also, the supplier persuasion issue can be dealt by gradually replacing existing suppliers with the Third Way suppliers while continually trying to convert existing suppliers into the Third Way. It is

essential for VF in order to survive in apparel market to build a supplier relationship that is sustainable and interactive; hence, the Third Way is the answer.

## RECOMMENDATION

The company is currently in a no-return process. It needs to find the best way to satisfy the growing demand all around the world but parti